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Submission to the New Zealand Commerce Commission on the Draft Guidelines on the Application of Competition Law to Intellectual Property Rights

I. Introduction

The Fair Standards Alliance (FSA) welcomes this opportunity to offer comments to the New Zealand Commerce Commission (hereinafter “Commission”) on the draft “Guidelines on the Application of Competition Law to Intellectual Property Rights”. FSA offers its comments specifically on the relationship between competition law and intellectual property in the specific context standard essential patents (SEPs).

The FSA is an industry organization representing 48 companies promoting the licensing of standard essential patents (SEPs) on a fair, reasonable, and non-discriminatory (FRAND) basis.¹ Our membership is broad and diverse, ranging from multinationals to SMEs, and coming from different levels of the value chain across a diversity of “Internet of Things” industry sectors. Our members significantly contribute to innovation around the world. Annually, the aggregate turnover of FSA members is more than 3.5 trillion NZD, and in aggregate our members spend more than 215 billion NZD on R&D and innovation. Our members have more than 500,000 granted or pending patents, including SEPs.

We hope our comments will help the Commission better understand the dynamics of the interplay between competition law and intellectual property in the specific context of standardised technologies, and the need for robust antitrust enforcement against misuse of market power associated with SEPs.

II. Standard Essential Patents and FRAND

Standards are important enablers for any competitive and dynamic market where innovation and the need for interoperability go hand in hand. For standards to be successful and widely adopted by the market, it is crucial to ensure that SEP licensing occurs in a fair and balanced manner, which unfortunately has not been common practice.

Because standards are set by competitors coming together to choose a single set of technological solutions out of multiple options that existed prior to the agreement about the technology to be

¹ For a full list of FSA members please refer to the FSA website, <https://fair-standards.org/members/>

standardised, and because of the market power conferred to holders of SEPs, competition concerns may arise. For example, the European Commission has acknowledged that standard-setting has the potential to reduce price competition, foreclose innovative technologies, and exclude or discriminate against certain companies by preventing effective access to the standard.²

As the name indicates, an SEP is a patent which is essential to a standard, i.e., the patent claims an invention that must be used to exercise that standard. Once a technology standard is set and businesses have made substantial investments around it, innovating and developing products using the standard, they become effectively “locked in” because it is virtually impossible to design around the standardised technology. This “lock-in” creates substantial market power for SEPs holders, particularly for telecommunication SEPs.

As a safeguard against competition concerns, most standard setting organisations (SSOs) require SEP holders to state whether they will voluntarily agree to license their SEPs on “fair, reasonable and non-discriminatory” (FRAND) terms. The trade-off is simple: the SEP holder benefits from having its technology recognised as part of an industry standard that is widely adopted, and in exchange it commits to license its technology on FRAND terms so that everyone can license, use, and rely on the standard. Competition authorities play a significant role in enforcing that FRAND commitment to promote market competition, innovation, and protect consumers.

In its September 2022 Digital Strategy for Aotearoa, the New Zealand government set out as its goals to ensure that its “businesses and organisations innovate and increase productivity using digital technologies and data,” and to ensure “[a]ll New Zealand businesses are born digital, and supported to adopt the digital tools that work for them.”³

The push for digitalisation using standardised technologies, like 5G, exposes New Zealand businesses to potentially anticompetitive practices of SEP holders who may leverage their substantial market power to demand extortionate royalty rates and/or exclude companies from the market. This could have adverse effects on competition and innovation in the New Zealand economy. For this reason, and to ensure that the New Zealand government can achieve its digitalisation goals, we encourage the Commission to carefully consider the role that competition law enforcement has to play in relation to the licensing of SEPs subject to a FRAND commitment.

This topic should be of particular interest to New Zealand’s world leading agricultural sector. As farmers up and down the country push forward with digitalisation efforts to increase productivity, they will adopt technologies and precision farming techniques that utilise standardised technologies like 5G. Without the correct competition framework in place, SEP-related abuse will expose farmers and New Zealand exporters to unfair trading practices that will threaten New Zealand agricultural competitiveness.

Proposal

In the chapter “Key concepts in assessing whether conduct may breach the Commerce Act”, at paragraph 38.1 we recommend changes to improve the clarity of the text as follows:

“Where intellectual property rights are incorporated into a government or industry standard, ~~licensing of those~~ intellectual property rights may become essential to ~~the standard, and licensing those rights therefore become necessary to~~ effectively compete.”

This change should also be reflected at paragraph 52 third sentence.

Further, patent pools should be included in paragraph 38.4:

² Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ C 11/1 of 14.1.2011 (Horizontal Guidelines), paras 264 – 268.

³ The Digital Strategy for Aotearoa, p. 4. <https://www.digital.govt.nz/digital-government/strategy/digital-strategy-for-aotearoa-and-action-plan/the-digital-strategy-for-aotearoa/>

“A collecting society¹⁷ or patent pool¹⁸ (new footnote 18: a patent pool is an organization that licenses and manages patent licenses on behalf of multiple patent owners) might enjoy market power because of the breadth of intellectual property rights to which the society or pool has access;“

III. Injunctions and Hold Up

The most prevalent manner in which a holder of an SEP may misuse its market power is to leverage the exclusionary right conferred by the patent to hold up implementers of a standardised technology. Through the threat of an injunction based on a SEP, a SEP-holder can extract royalties or other terms that it would not have otherwise been able to.

Each SEP can be considered a separate market in itself as infringement of the patented claim covered by the SEP is necessary to comply with a standard and thus cannot be designed around, i.e., there is by definition no alternative or substitute for each such patent.⁴

The phenomenon of patent hold-up has long been recognised by academics, courts and regulators as a major concern arising from standardisation.⁵ For example, the European Commission has found that when SEP holders agree to license their SEPs on FRAND terms, they limit their ability to exclude potential licensees through injunctions. The European Commission looked at the practical relationship between the FRAND commitment that SEP holders make to SSOs and SEP holders' licensing practices in 2014 and held that it was a violation of Article 102 TFEU for a SEP holder (Motorola) to seek an injunction against a willing licensee (Apple).⁶

The same question was brought before the Court of Justice of the European Union in 2015 in *Huawei v ZTE*, and the CJEU provided the same answer. In both those cases, the respective SSO IPR policies required SEP holders to commit to license their SEPs on FRAND terms, and the SEP holders had in fact made such commitments.

Both the CJEU and the European Commission ruled that a FRAND commitment creates 'legitimate expectations' for third parties that a licence to necessary SEPs would be available to them.⁷ The case law of both the European Commission and the CJEU also acknowledges that the indispensable nature of SEPs and legitimate expectations that SEP holders would grant FRAND licences amounted to 'exceptional circumstances' that distinguish SEP licensing disputes from other cases in which an IPR holder is generally free to seek injunctive relief.⁸

Both the European Commission and the CJEU have thus recognised that the standardisation context and the required FRAND commitment limit a SEP holder's freedom to license its SEPs according to any commercial strategy it might choose absent the FRAND commitment. Otherwise, SEP holders would be able to use the threat of exclusion through injunctions to effectively force potential licensees into accepting licensing terms that would not be FRAND.

⁴ Case COMP/M.6381 - *Google/Motorola Mobility* (Google/Motorola Mobility), para. 61; *Unwired Planet International Ltd v Huawei Techs. Co. Ltd.* [2017] EWHC Case No: HP-2014-000005, para. 631; *Unwired Planet International Ltd v Huawei Techs. Co. Ltd.* [2017] EWHC 711 at 670 (“The relevant market is a market for licences under the SEPs. It is a market in which the SEP holder has 100% market share.”)

⁵ Carl Shapiro & Mark A. Lemley, “The Role of Antitrust in Preventing Patent Holdup”, 168 *U. Pa. L. Rev.* 2019 (2020). Available at: https://scholarship.law.upenn.edu/penn_law_review/vol168/iss7/5.

⁶ Article 102 TFEU is broadly speaking the equivalent to the misuse of market power in Section 36 of the Commerce Act 1986.

⁷ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, at [49-53].

⁸ *Ibid.*, at [47]

The United States has also recognised that there should be restrictions on SEP holders ability to obtain injunctions. In *eBay Inc. v. MercExchange, L.L.C.* (“eBay”),⁹ the U.S. Supreme Court determined that a party seeking an injunction “must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.” The Federal Circuit in *Apple v. Motorola* confirmed that the same framework also applies with regard to SEPs, noting that a “patentee subject to FRAND commitments may have difficulty establishing irreparable harm” under *eBay*.¹⁰ In other words, injunctions are generally not available in the SEP context because patent holders have agreed to license their SEPs rather than exclude competitors and can thus be fully compensated through reasonable royalty damages. We invite the Commission to consider reflecting in the guide this fundamental premise of the U.S. framework, which has proven successful over the years.

In addition, the Competition and Consumer Commission of Singapore has noted in its guidelines on the Treatment of Intellectual Property Rights,¹¹ that “seeking an injunction based on an alleged infringement of a SEP may give rise to competition concerns under section 47 of the Act if the SEP holder has a dominant position in a market, has given a voluntary commitment to license its SEP on FRAND terms and where the party against whom the SEP holder seeks to injunct is willing to enter into a licence agreement on such FRAND terms.”

Moreover, the Chinese State Administration for Markets and Regulation has stated in its draft “Provisions on the Prohibition of the Abuse of Intellectual Property Rights to Exclude or Restrict Competition” (subject to being made final) that an undertaking with a dominant market position may not improperly request for a court or relevant authority “to make or issue judgments, rulings, or decisions prohibiting the use of relevant intellectual property rights”.¹²

At present the draft guidelines do not refer to the use of injunctions as a type of conduct that may harm competition. We encourage the Commission to move in concert with competition regulators around the world and include a new subsection on the use of injunctions so that it is clear in the case of SEPs that injunctions should only be sought in exceptional circumstances.

Proposal

We encourage the Commission to make amendments to the guidelines to include a new subsection below paragraph 50, “Use of Injunctions”.

This subsection should include phrasing that makes it explicit that (i) by seeking or threatening to seek an injunction against a potential licensee, absent exceptional circumstances,¹³ or (ii) by seeking excessive royalties, an SEP holder may be misusing its market power under Section 36 of the Commerce Act.

The subsection should make cross reference to the “Refusals to license intellectual property” to make reference to the fact that injunctions are sought against some parties while the SEP holder refuses to offer licenses to others in the supply chain willing to take a license (see below).

Use of Injunctions

⁹ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S., 388, 391 (2006).

¹⁰ *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014)

¹¹ CCCS Guidelines on the treatment of intellectual property rights, p.22 ([available here](#))

¹² Article 16, Provisions on the Prohibition of the Abuse of Intellectual Property Rights to Exclude or Restrict Competition (FSA can provide an English translation of the draft provisions upon request).

¹³ Such as those defined in *eBay Inc. v. MercExchange*, see footnote 8.

- 51 (new) Intellectual property owners are generally permitted to protect and commercialise their intellectual property as they see fit. However, in the context of standard essential patents (SEPs), where a firm or group of firms have agreed to license their intellectual property on ‘Fair Reasonable and Non-Discriminatory’ (FRAND) terms, the purpose of the FRAND commitment is to ensure availability of licenses to the SEPs so that the standard can be adopted to the greatest extent possible.
- 52 (new) In the SEP context, the seeking of injunctions against a potential licensee willing to agree a license on FRAND terms may be anticompetitive and may be considered a misuse of market power [cross reference to “Misuse of Market Power Guidelines].
- 53 (new) Where an intellectual property right is declared essential to a government or industry standard, seeking or threatening to seek an injunction against a potential licensee, absent exceptional circumstances,¹⁴ or seeking excessive royalties may be considered as a misuse of market power under the Commerce Act.

IV. Refusal to License

SEP holders that have made a FRAND commitment must make FRAND licences available to any party seeking licence to their SEPs, regardless of where in the supply chain they operate.¹⁵ The principle is also reflected in a CEN-CENELEC Workshop Agreement, which lists as its second core licensing principle that: “A FRAND license should be made available to anybody that wants one to implement the relevant standard. Refusing to license some implementers is the antithesis of the FRAND commitment. In many cases, upstream licensing can create significant efficiencies that benefit the patent holder, the licensee and the industry”.¹⁶ There are many other authoritative sources that share those views:

In its Horizontal Guidelines,¹⁷ the European Commission has noted that “In order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms”;

In its “Guidance on Environmental sustainability agreements and competition law,”¹⁸ the UK Competition and Markets Authority states that “if the standard-setting involves intellectual property rights (IPR), “participants [...] must also offer to licence their essential IPR to all third parties on fair, reasonable and non-discriminatory terms.”

¹⁴ A SEP owner should fulfil a four factor test, (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. See: *eBay Inc. v MercExchange*

¹⁵ See in particular the FSA Position Paper: “SEP Licenses available to all”, available at http://fair-standards.org/wp-content/uploads/2020/07/160624_FSA_Position_Paper_-_SEP_licenses_available_to_all.pdf as well as the FSA Paper: “SEP licenses should be available to all companies in a supply chain that want a license for SEPs in their products – Supporting references”, available at: http://fair-standards.org/wp-content/uploads/2021/03/210215_SEP-licenses-should-be-available-to-all-companies-in-a-supply-chain-that-want-a-license-for-SEPs-in-their-products.pdf

¹⁶ CEN CENELEC Workshop Agreement CWA 95000-2019, “Core Principles and Approaches for Licensing of Standard Essential Patents,” at 9, <https://www.cencenelec.eu/media/CEN-CENELEC/CWAs/ICT/cwa95000.pdf>.

¹⁷ Horizontal Guidelines, para. 285

¹⁸ Competition and Markets Authority, “Guidance on Environmental sustainability agreements and competition law” (27 January 2021), available at: <https://www.gov.uk/government/publications/environmental-sustainability-agreements-and-competition-law/sustainability-agreements-and-competition-law>

In *Huawei v ZTE*,¹⁹ the European Court of Justice stated that “having regard to the fact that an undertaking to grant licences on FRAND terms creates legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms, a refusal by the proprietor of the SEP to grant a license on those terms may, in principle, constitute an abuse within the meaning of Article 102 TFEU”;

In *KFTC v. Qualcomm* (Korea 2017), the Court found that “[A]ccess to and use of cellular SEPs should be guaranteed for the modem chipset manufacturers in accordance with the purposes of standard-setting and FRAND commitments”;

In Japan, in its Guidelines for the Use of Intellectual Property under the Antimonopoly Act, the Japan Fair Trade Commission (JFTC) argues that “refusal to license or bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent holder [...] may deprive the entrepreneurs who research & develop, produce or sell the products adopting the standards of trading opportunities or impede the ability of the entrepreneurs to compete by making it difficult to research & develop, produce or sell the products adopting the standards”.

The Commission is correct to identify a refusal to license as potentially anticompetitive. This is particularly so in the instance of SEPs, where the patents are necessary to compete effectively and the SEP holder has committed to offer licenses on FRAND terms as part of the agreement to include their patented technology into the standard.

We welcome the Commission’s recognition at paragraph 51 that “refusals to license intellectual property are likely to be treated the same way as a refusal to provide access to a service or physical input.” This provides clarity to both the “Guidelines on the Application of Competition Law to Intellectual Property Rights” and the “Misuse of Market Power Guidelines”.

Refusal to license in recent years has become a problematic issue as new industries have adopted connectivity standards like 4G-LTE. The refusal to license to suppliers coupled with the use of injunctions against Original Equipment Manufacturers (OEMs) has been the cause of significant disputes between the automotive industry and SEP owners. FSA considers the refusal to offer licenses to suppliers willing to take licenses on FRAND terms as both an anticompetitive behaviour and a violation of the SEP owners FRAND commitments to the standard development organisations (SDO).

We believe it is in the strong interest of the New Zealand economy as a whole, and the agricultural sector in particular, to ensure that suppliers of components that enable connectivity are able to get licenses on FRAND terms. By doing so, suppliers are able to clear third party rights for OEMs and decrease their exposure to patent infringement through the doctrine of patent exhaustion. This is in the interest of the New Zealand economy which consists overwhelmingly of SMEs who do not have the expertise to assess a potential patent infringement and royalty claim from a SEP owner.

Proposal

We encourage the Commission to make amendments to paragraph 55 on “Refusals to license intellectual property” to improve the clarity of text and make clear that any potential licensee willing to take a license on FRAND terms should be able to get one. As outlined above, a FRAND declaration on the part of SEP owners is no guarantee that the SEP owner will in fact do so.

The Commission should consider the following change:

¹⁹ C-170/13 - *Huawei Technologies*, available at :

<https://curia.europa.eu/juris/document/document.jsf?text=&docid=165911&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=572907>

- 55 Where a firm or group of firms have agreed to license their intellectual property on ‘Fair, Reasonable and Non-Discriminatory’ (FRAND) terms, and ~~do so~~ offers a license on FRAND terms to any potential licensee that seeks one, their conduct is less likely to harm competition”

Further the Commission should change the example of refusal to license on page 10 to reflect the prevailing dynamics in the market for SEP licensing. The Commission’s example describes a cross-licensing situation of two or more firms operating in the same market (mobile phones). However, technologies like 5G will be implemented in products that hitherto have not utilised those technologies such as agri-tech, automobiles, smart meters, manufacturing and connected health otherwise loosely referred to as the “Internet of Things” (IoT). In these situations, firms have neither their own SEP portfolio to cross license nor internal expertise to assess SEP infringement and royalty claims. Moreover, the example does not reflect the fact that many SEP owners are non-practising entities and have no interest in cross licenses because the firms do not manufacture any products.

Therefore, by way of its example, the Commission should acknowledge the new reality of SEP licensing in cellular markets for the Internet of Things and set market expectations such that manufacturers of the components implementing the standard are able to get licenses on FRAND terms. The Commission should make clear that any potential licensee willing to take a license on FRAND terms should be able to get one. Beyond that, market forces should be allowed to prevail so that each industry vertical implementing connectivity may develop its own licensing practices (i.e., licensing practices for mobile phones may be different as compared to smart meters), provided that the results are indeed FRAND licenses.

Refusal to license

The mobile telecommunications industry relies heavily on standardisation. Cellular and WiFi networks rely on standards comprising thousands of patents in order to work. Without the widespread use of standardised technologies, interconnectivity would not be possible.

Firm A is the owner of a large portfolio of patents ~~mobile phone manufacturer, and owns several patents~~ that govern mobile connectivity between end user devices and the 5G cellular network. Firm A commits to the relevant standard development organisation ~~offers~~ to license its patents ~~to competing mobile phone manufacturers~~ on FRAND terms.

Firm B is a manufacturer of cellular connectivity modules that implement the relevant sections of the 5G standard. These modules can be used in a wide range of sectors.

Firm C is a smart farming solutions provider selling a range of end products for monitoring climactic conditions, managing livestock such as sheep flocks, managing crops to increase yields, and operating drones for hyperspectral imaging of crops to support predictive monitoring of blight/viruses that can destroy crops. Firm C’s end products require cellular wireless connectivity.

Firm C purchases the cellular connectivity modules for its end products from Firm B, but has little or no expertise in the technology, other than to simply buy and incorporate these cellular modules into its end devices. There is no alternative wireless technology that Firm C could use.

Firm B requests a license on FRAND terms from Firm A, so that Firm B can develop and sell fully licensed cellular modules to any customer or potential customer. ~~competing mobile incorporation of the patents are required by industry standards on all mobile devices, and that Firm A’s licensing offer constitutes a constructive refusal to license the patents, on the grounds that the fees and rates set by~~ Firm A refuses to offer Firm B a license on FRAND terms, even though Firm B has stated its willingness to take such a license. Firm A then seeks an injunction

against Firm C based on Firm's C's alleged infringement of its patents that are essential to practice the standard based on its use of Firm B's modules. ~~are so high that no competitor would be reasonably willing to accept the terms~~. If Firm A had offered a FRAND license to Firm B, then Firm C's products would have been fully licensed, such that no claim for infringement would be possible.

To avoid the injunction, Firm A demands that Firm C accept a direct license. If Firm C does not accede to Firm A's demands it cannot make or sell its end products.

By accepting Firm A's license, Firm C may over-pay for the cellular technology, decreasing its incentives to innovate and harming its ability to compete in its market segment against competitors. At a minimum, Firm C may have to over-charge customers that buy its end products, who in turn will charge more for their crops and livestock.

By refusing a license to Firm B, Firm B will not have certainty of its ability to sell to existing or future customers, and will not know what future costs may be imposed by Firm A on its customers and products. Firm B may not be able to reliably invest in ongoing innovation and development of its products without knowing which, if any, of its customers may become licensed in the future by Firm A, nor on what terms such licenses might be concluded.

In assessing whether Firm A's ~~fees and rates~~ behaviour constitutes a constructive refusal with the potential to harm competition, the Commission would consider:

- The extent to which the patents were an important input to the manufacture of ~~mobile~~ devices, and whether it was possible to manufacture and sell devices without the use of the patents (for example using substitute patents). If use of the patents are indeed required by the relevant industry standard, a refusal to license ~~to competitors (or margin squeeze)~~ would have the potential to harm competition.
- The extent to which a refusal to license would affect incentives to invest and innovate in downstream markets that rely on use of the standard. If, by refusing to offer a license to Firm B, Firm A reduces Firm B's incentives to invest and innovate, Firm A's conduct would have the potential to harm competition.
- The extent to which the fees and rates offered by Firm A constituted an anti-competitive margin squeeze or constructive refusal to supply, with regard to whether ~~competitors~~ firms relying on the standard in downstream markets would be foreclosed by the level of the fee and royalties. If the proposed terms did substantially reduce the margin available to competitors at the wholesale / retail level, or are sufficiently high as to constitute a constructive refusal to license, Firm A's conduct would have the potential to harm competition.
- On the other hand, if the terms offered by Firm A ~~to any firm requesting a license its competitors~~ broadly amounted to FRAND terms ~~having regard to industry practice~~, they would be unlikely to harm competition

V. Restrictive licensing of intellectual property

The list of restrictive licensing practices is welcome. It should be noted however that despite commitments to license on FRAND terms many of the practices listed occur nonetheless, including (i) field of use, and (ii) tying and bundling.

Field of use licensing

SEPs should be valued based on their own technical merits and scope, not based on downstream values or uses. However, some SEP holders have tried to suggest valuing SEPs on the basis of the end product

which would capture features and innovations that are unrelated to the SEP.²⁰ As a general principle discernible from the relevant authorities, FRAND royalties should reflect the value of the patented invention, and only the value of the patented invention.

Field of use licensing is also problematic in the context of standardised technologies for the Internet of Things, where value chains are heterogenous from one another and defined use cases vary considerably. This practice places a constraint on competition where IoT chipset and module vendors are unable to get licenses on FRAND terms. Without FRAND licenses, chipset and module vendors face considerable risk when selling their products into new markets. This is especially problematic because licensing programs by and large do not exist for IoT technologies. This is slowing the adoption of technologies that increase economic efficiency and would otherwise help achieve broader policy goals such as the fight against climate change and providing consumer benefit.

The Commission notes in paragraph 66 that restrictions on field of use may be pro-competitive because they “encourage the licensor to license its intellectual property where it otherwise would not do so.” However, in the case of SEPs, the licensor has already publicly declared to the relevant SSO that it would license its patents. As such, the concern that a licensor would not otherwise license is dissipated.

Proposal

We encourage the Commission to make the following change to the subsection “Territorial, Field of Use, and Customer Restraints”.

66.1 Where a licensor licenses patents declared essential to a government or industry standard, field of use clauses are more likely to harm competition because the intellectual property constitutes an essential input for which there are no alternatives.

Tying and Bundling – Portfolio Licensing

Portfolio licensing by itself is not objectionable where this is done consensually. “However, a licensee should not be obliged to license and pay for technology they do not infringe or intend to use in the future.

The licensing of a patent portfolio is distinct from the infringement of a patent. The licensing of patents (i.e., the license itself) pertains primarily to contract law, whereas the infringement of a patent relates to patent law. This legal delineation can create tensions when SEP holders attempt to bundle SEPs with non-SEPs through portfolio licensing whereas it is generally recognised that licensees are not required to take a licence for non-SEPs held by the patent holder in order to take a license for the patent holder’s SEPs.²¹

The complexity of this issue is exacerbated by the fact that between 50-90% of SEPs are in fact not essential to the given standard despite having been declared as such.²² Coupled with this is the fact that many SEPs are not valid either. Some SEPs are in fact being invalidated through either court proceedings, or through re-examination or revocation procedure before the patent office after the

²⁰ For detailed study on the issue of end use licensing and how to overcome it, please refer to Benno Buehler and Christoph von Muellern, “End-use-based licensing – An economic perspective”, Charles River Associates (November 2022), available at <https://fair-standards.org/2022/11/29/end-use-based-licensing-an-economic-perspective/>

²¹ COM(2017) 712 ‘Setting out the EU Approach to Standard Essential Patents’, p. 11 (“In this context, SEP holders may offer more patents, including non-SEPs, but cannot require a licensee to accept a licence for these other patents as well.”); Microsoft Mobile Inc. v. Interdigital, Inc., 2016 WL 1464545, at *1 (D. Del. Apr. 13, 2016).

²² *Ibid*, at 5 n.19; European Commission, “Competition policy brief – Standard-essential patents” (June 2014), at 4.

patent has been granted. One study analysing SEP litigation outcomes from 2013 to 2017 found that just 11% of SEPs originally asserted during that period were found to be both valid and infringed.²³

Bundling of SEPs with non-SEPs, despite the rule against this practice, occurs routinely because it proves an impossible task for a potential licensee to assess and litigate each and every patent in a given portfolio. Licensing a larger patent portfolio based on the assertion of a handful of carefully selected patents (often as a “proud” list), inevitably means that if one were to assess the essentiality, validity and infringement of every patent in the portfolio, a considerable number would be found to be not applicable.

This is particularly concerning with regards to non-practising entities, patent assertion entities, and privateers. Many of these entities hold only a few valid and truly-essential SEPs, which they use together with a host of self-declared SEPs (often of dubious applicability). Collectively this group of entities represent a tax on innovation that is passed onto consumers in the form of higher prices.²⁴

Unfair bundling may also occur when SEP holders seek to license their entire portfolio of SEPs, even if the accused product does not infringe some of those SEPs. This can occur when the SEPs read on a part of the standard which the product does not implement (e.g., at the network level). Similarly, SEP holders will sometimes seek to license their entire portfolio of SEPs which includes optional sections of the standard that the product may not infringe.

Finally, bundling can occur when the SEP holder demands that the licensee take a worldwide licence when that licensee only has a presence in specific localities or regions.

Proposal

At paragraph 58.4 the Commission lists tying and bundling as examples of “Restrictive licensing of intellectual property,” but there is no corresponding subsection on the practice save for the reference to tying and bundling under “practices that extend the market power associated with patents beyond the expiry of the patent protection.” The Commission should include tying and bundling as a subsection between the subsections on “Field of Use” and “No Challenge Clauses” and include language that reflects the issues inherent to portfolio licensing as outlined above.

VI. Aggregation of Intellectual Property Rights

As the Commission notes, although patent pools can be pro-competitive because they make it easier to obtain licenses for multiple complementary technologies, they also have the potential to harm competition. In the case of SEPs, patent pools have become a means to collectively set prices, shield invalid and non-essential patents from challenge, and bundle large numbers of substitutable patents with complementary patents. For a full account of FSA’s position on patent pools please refer to the FSA website.²⁵

There are four issues that we believe are overlooked in the guidelines and should be addressed.

²³ Matthew G. Rose, & Emily Lukan, “Between a Rock and a Hard Place”: Unwired Planet v. Huawei and the Dangerous Implications of Worldwide FRAND Licenses, E-COMPETITIONS, NO. 84684 (Aug. 2017), available at <http://s3.amazonaws.com/cdn.orrick.com/files/eCompetitionsAugust2017.pdf>

²⁴ Mark A. Lemley, and Douglas A. Melamed, (2013). “Missing the Forest for the Trolls”, Colum. L. Rev., 113, 2117. p. 2149 and n. 140

²⁵ FSA (2019), “Patent pools and licensing platforms in SEP licensing”, <https://fair-standards.org/2019/11/06/patent-pools-and-licensing-platforms-in-sep-licensing-2/>

First, any patent pool purporting to license out SEPs on behalf of a group of licensors must be **bound by the FRAND commitments** of the licensors. While this might seem self evident, we have seen recent attempts of some patent pools to skirt this responsibility by claiming that they are not bound by FRAND.²⁶ The Commission should made it clear in the guidelines that patent pool administrators are bound by the FRAND commitments for the licensors contributing their patents to the pool.

Second, when **multiple patent pools** exist, especially for the same standard, potential licensees may have to deal with several entities, at different rates, and for different functionally oriented parts of the standard. Multiple patent pools for the same standard may cause the total aggregate rate for the standard to not be transparent, even if measures are taken to avoid potential double-dipping from multiple patent pools (or from patents already licensed from an individual licensor). In some instances SEPs are licensed both bilaterally between a SEP holder and a licensee, and through a pool, which leads to duplicative royalties being paid for the same SEPs.

Some courts in Europe have already held that patent pools that do not have provisions to deal with duplicative royalties are non-FRAND.²⁷ We encourage the Commission to consider including this within the guidelines with a view to providing clear language. At present the guidelines overlook this issue.

Third, the Commission should include language on patent pool agreements that provide for **collective litigation campaigns** by patent pool members against potential licensees.

Some patent pool agreements include clauses that disincentivise their members from entering into bilateral licensing agreements with a licensee which the license administrator deems to be an “unwilling licensee.”²⁸ Such agreements can also include provisions to reimburse litigation costs incurred by members, but only if the litigation leads to a pool license, not a bilateral license.²⁹ Such provisions disincentivize individual or separate licensing, which removes competitive pressure from the pool.

Coordinated behaviour of the kind outlined above is a cause for concern as it decreases incentives for either individual licensors or the pool to offer licenses on FRAND terms. As such, we encourage the Commission to consider including this kind of behaviour as a restrictive licensing practice in the guidelines.

Fourth, the guidelines are silent on the issue of **essentiality assessments of patents**. The number of patents declared essential to standards has continued to grow exponentially. Although this increase in declarations partly reflects the increasing complexity of technology standards, it has also been caused by standards contributors’ incentives to over-declare their patents as essential.

Patent pools should conduct essentiality checks through an independent external evaluator, although other internal and external policing also may be helpful. In addition, they should allow validity checks among its licensors/patent owners. It is imperative that any such checks be performed by a truly independent party, who is an expert in the field, has knowledge of the standard, and does not have

²⁶ Continental Automotive Systems, Inc. v. Avanci, LLC. Rule 16 Conference No. 3:19-CV-2933-M, (N.D. Tex) (Jan 21, 2020) pp. 32-33, 53-54 (“it seems illogical to me that there’s no FRAND obligation at the pool level”).

²⁷ Konstanze Richter (2022), “Access Advance licence is non-FRAND, rules Regional Court Düsseldorf”, JUVE Patent (6 January 2022), <https://www.juve-patent.com/news-and-stories/cases/access-advance-licence-is-non-frand-rules-regional-court-dusseldorf/>

²⁸ See Redacted Internet of Things (“IoT”) Platform Master License Management Agreement, Section 4.8 available in redacted form as JX0116, Dkt. 1306 in Federal Trade Commission v. Qualcomm, 5:17-cv-00220-LHK (N.D. Cal.) (hereinafter “Avanci Master License Agreement”).

²⁹ Avanci Master License Agreement, Section 5.1.2

any interest in the outcome of the assessment. It is also important that any such checks be publicly disclosed.

For this reason, we urge the Commission to set thresholds for assessing essentiality. Where the essentiality rates for new standards like 5G-NR may be as low as 13% there is a strong likelihood that a pool for this standard, absent robust essentiality assessments, will have a significant number of substitutes that will increase the cost of the patented technologies.³⁰

Proposal

- 82 However, patent pools have the potential to harm competition in some circumstances if, for example:
- [...]
- 82.4 The pool lacks a duplicative royalty policy that accounts for overlapping patents or places the onus on the licensee to seek rebates from individual licensors;
- 82.5 The pool lacks robust and publicly disclosed essentiality assessments of the patents contributed to the pool conducted by an independent external evaluator; or
- 82.6 The pool includes a collective litigation clause that disincentives bilateral licensing.
- 83 (New) Where a patent pool licenses standard essential patents on behalf of a two or more patent owners, the pool must abide by the FRAND commitments of the licensors.

VII. Conclusion

The FSA would like to thank the Commission for considering the views of the FSA and its members. We hope that our viewpoints will be considered in the review of the guidelines and remain at the disposal of the Commission for further consultation if needed.

NOTE: The positions and statements presented in this paper do not necessarily reflect the detailed individual corporate positions of each member.

³⁰ Robert Stoll (2021), "5G SEP leadership in 2021", Managing IP (4 Oct. 2021), available here: <https://www.managingip.com/article/2a5d034hr8td8ozv9twqp/5g-sep-leadership-in-2021>